

SKYLINE TORONTO

800 comfortable rooms and split level suites, a choice of live entertainment, fine dining in the Cloud Room, 2 theatres, shopping concourse, health club, indoor pool, convention facilities for 10 to 2,000 and convenient location near the International Airport, make the Skyline Toronto everything you want in a hotel.



THE OLD MILL

Dining and dancing in a traditional setting — one of Toronto's historic landmarks overlooking the Humber Valley. Banquet and meeting facilities for up to 800.

ANNUAL REPORT 1975



SKYLINE HOTELS LIMITED and subsidiaries



THE SKYLINE GROUP

CANADA SKYLINE HOTELS LIMITED
SKYLINE HOTELS (MONTREAL) LIMITED

ENGLAND SKYLINE HOTELS INTERNATIONAL LIMITED
SKYLINE HOTELS (LONDON) LIMITED

JAMAICA SKYLINE HOTELS (CARIBBEAN) LIMITED

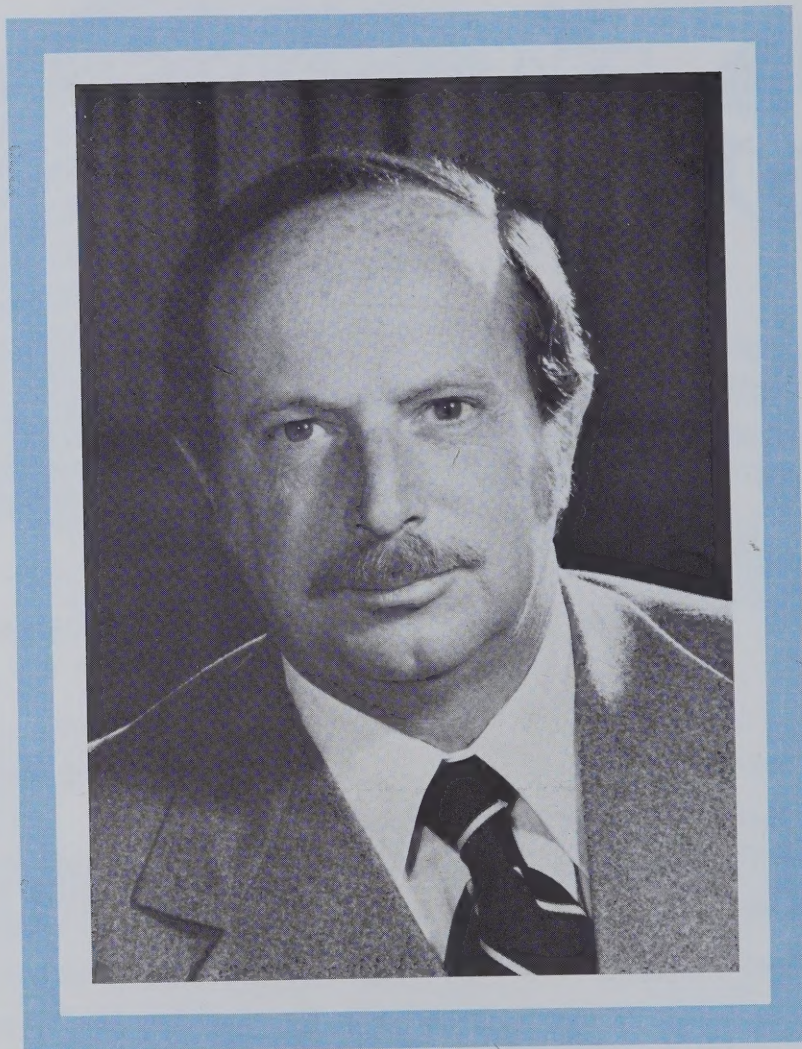
FINANCIAL HIGHLIGHTS YEAR ENDING DECEMBER 31, 1975 WITH 1974 COMPARISONS

	1975	1974
Gross revenue	\$32,781,602	\$30,781,551
(Loss) Earnings after current income taxes payable	\$(1,523,228)	\$ 844,848
Per Share	(66¢)	38¢
Net (Loss) Earnings	\$ (666,896)	\$ 551,822
Per Share	(29¢)	25¢
Cash flow from operations	\$ 308,351	\$ 2,361,868
Per Share	\$.13	\$ 1.05
Number of shares outstanding	2,315,180	2,252,530*

*Weighted average number of common shares outstanding during year

CONTENTS

	Page		Page
Skyline Properties	IFC	Statement of Loss	7
Financial Highlights	1	Statement of Changes in Financial Position	8
President's Message	2 & 3	Notes to the Consolidated Financial Statements	9 - 12
Consolidated Balance Sheets	4 & 5	Skyline Properties	IBC
Statement of Surplus	6		



TO THE SHAREHOLDERS

I am sorry to report such disappointing results for your company for the year ending December 31, 1975. It really is no compensation to say it certainly has been a trend throughout our whole industry during the past year and the early months of 1976.

Management has kept the operating costs within reason, however, the uncontrollables such as heat, light, power and real estate taxes have dealt a severe blow to our industry as a whole.

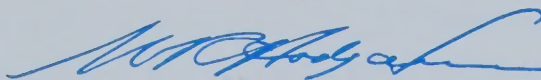
Your management has taken drastic steps in the cutting of its overhead by the reduction of head office expenses, and although the first part of 1976 continued the pattern of the previous year, some encouraging signs are now appearing. On the revenue side, corporate spending for sales training programmes and company travel seems to be on an increase.

In March of this year, we entered into a letter of intent with Canadian Pacific Hotels to purchase our two hotels in London. As of this date this transaction has not closed, however, the most recent information that I have indicates a closing on June 15, 1976. Should this transaction be completed, approximately \$6,000,000 will be injected into the company which will be used to increase working capital and to reduce debt.

To sum up, we are reasonably optimistic for the balance of the year, however, I do not think this will do more than to compensate for the early months.

May I thank you for your continued support.

Yours truly,

A handwritten signature in blue ink, appearing to read 'W. R. Hodgson', written in a cursive style.

W. R. Hodgson,
President.

SKYLINE HOTELS LIMITED

(Under the Business Corporations Act, Ontario)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1975

(with 1974 figures for comparison)

ASSETS

CURRENT ASSETS:	1975	1974
Cash	\$ 506,604	\$ 108,507
Accounts receivable	2,268,268	2,448,039
Inventories — at cost	759,413	747,727
Prepaid expenses and sundry assets	525,834	493,753
Total current assets	<u>4,060,119</u>	<u>3,798,026</u>
 FIXED ASSETS (Note 2)	 <u>35,901,300</u>	 <u>35,292,915</u>
 LAND HELD FOR FUTURE DEVELOPMENT	 <u>696,926</u>	 <u>—</u>
 DEFERRED COSTS:		
Development costs of proposed projects	98,247	98,247
Unamortized opening and establishment costs	1,141,532	1,247,898
Unamortized financing costs	247,906	286,604
Total deferred costs	<u>1,487,685</u>	<u>1,632,749</u>
 OTHER ASSETS:		
Loans and deposits receivable (Note 8)	242,207	271,032
Organization expenses	80,423	65,703
Total other assets	<u>322,630</u>	<u>336,735</u>
TOTAL	<u><u>\$42,468,660</u></u>	<u><u>\$41,060,425</u></u>

Approved by the Board:

W. R. Hodgson, Director

C. A. McKechnie, Director

AUDITORS' REPORT

To the Shareholders of Skyline Hotels Limited:

We have examined the consolidated balance sheet of Skyline Hotels Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of loss, surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

SKYLINE HOTELS LIMITED
(Under the Business Corporations Act, Ontario)
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1975
(with 1974 figures for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

	1975	1974
Bank indebtedness (Note 3)	\$ 2,034,423	\$ 2,537,191
Accounts payable and accrued liabilities:		
Trade	5,213,684	4,257,669
Construction	—	1,011,374
Income taxes payable	104,776	93,220
Dividend payable	—	173,639
Long-term debt due within one year	751,010	1,176,229
Total current liabilities	<u>8,103,893</u>	<u>9,249,322</u>
LONG-TERM DEBT (Notes 3 and 4)	28,009,236	23,063,439
DEFERRED INCOME TAXES (Note 5)	1,108,261	1,947,856
MINORITY INTEREST IN SUBSIDIARY (Note 6)	<u>—</u>	<u>885,642</u>

SHAREHOLDERS' EQUITY:

Capital stock:

Authorized:

6,000,000 common shares without par value

Issued and fully paid:

2,315,180 shares	2,951,257	2,951,257
Surplus	2,296,013	2,962,909
Total shareholders' equity	<u>5,247,270</u>	<u>5,914,166</u>
TOTAL	<u>\$42,468,660</u>	<u>\$41,060,425</u>

The accompanying notes are an integral part of these consolidated financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, May 25, 1976.

DELOITTE, HASKINS & SELLS Chartered Accountants

SKYLINE HOTELS LIMITED
CONSOLIDATED STATEMENT OF SURPLUS
For The Year Ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
RETAINED EARNINGS AT BEGINNING OF THE YEAR	\$ 2,848,593	\$ 2,638,410
NET (LOSS) EARNINGS FOR THE YEAR	(666,896)	551,822
	2,181,697	3,190,232
DEDUCT:		
Dividends	—	341,639
	2,181,697	2,848,593
RETAINED EARNINGS AT END OF THE YEAR	2,181,697	2,848,593
CONTRIBUTED SURPLUS (no change during the year)	114,316	114,316
	\$ 2,296,013	\$ 2,962,909
SURPLUS AT END OF THE YEAR	\$ 2,296,013	\$ 2,962,909

The accompanying notes are an integral part of these consolidated financial statements.

SKYLINE HOTELS LIMITED
CONSOLIDATED STATEMENT OF LOSS
For The Year Ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
REVENUE	\$32,781,602	\$30,781,551
COST OF SALES AND OPERATING EXPENSES	29,224,589	26,685,691
EARNINGS BEFORE THE UNDERNOTED ITEMS	3,557,013	4,095,860
INTEREST INCOME	3,954	5,461
	<u>3,560,967</u>	<u>4,101,321</u>
OTHER EXPENSES:		
Interest on long-term debt	2,772,424	1,516,240
Other interest	372,229	172,400
Amortization of financing costs	43,178	47,508
Depreciation and amortization of fixed assets	1,590,033	1,282,582
Amortization of opening and establishment costs	198,368	186,930
	<u>4,976,232</u>	<u>3,205,660</u>
(LOSS) EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	<u>(1,415,265)</u>	<u>895,661</u>
RECOVERY OF (PROVISION FOR) INCOME TAXES:		
Currently payable	(107,963)	(50,813)
Deferred	839,595	(387,690)
	<u>731,632</u>	<u>(438,503)</u>
(LOSS) EARNINGS BEFORE MINORITY INTEREST	(683,633)	457,158
INTEREST OF MINORITY SHAREHOLDER IN LOSS OF SUBSIDIARY (Note 6)	16,737	94,664
NET (LOSS) EARNINGS FOR THE YEAR	<u>\$ (666,896)</u>	<u>\$ 551,822</u>
(LOSS) EARNINGS PER SHARE	<u>(29¢)</u>	<u>25¢</u>

The accompanying notes are an integral part of these consolidated financial statements.

SKYLINE HOTELS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For The Year Ended December 31, 1975
(with 1974 figures for comparison)

	1975	1974
FUNDS PROVIDED:		
Net (loss) earnings for the year	\$ (666,896)	\$ 551,822
Add charges (credits) not affecting funds:		
Depreciation and amortization of fixed assets	1,590,033	1,282,582
Amortization of deferred costs	241,546	234,438
Deferred income taxes	(839,595)	387,690
Interest of minority shareholder in loss of subsidiary	(16,737)	(94,664)
Funds provided from operations	308,351	2,361,868
Proceeds from issue of shares	—	199,227
Increase in long-term debt	3,854,889	5,848,512
Total funds provided	4,163,240	8,409,607
FUNDS APPLIED:		
Purchase of minority interest (Note 6)	1,112,629	—
Less first mortgage debenture stock issued	1,090,908	—
	21,721	—
Fixed asset additions, less disposals of \$74,277 (1974 — \$52,744)	1,968,294	9,906,492
Dividends on common shares	—	341,639
Financing costs	4,480	46,240
Land held for future development	696,926	—
Opening and establishment costs	78,402	402,412
Loans and deposits receivable	(28,825)	215,480
Organization expenses	14,720	—
Total funds applied	2,755,718	10,912,263
DECREASE (INCREASE) IN WORKING CAPITAL DEFICIENCY	\$ 1,407,522	\$ (2,502,656)
CASH FLOW FROM OPERATIONS PER SHARE	\$.13	\$ 1.05

The accompanying notes are an integral part of these consolidated financial statements.

SKYLINE HOTELS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiaries (adjusted where necessary to conform with the company's accounting policies) after elimination of inter-company balances and transactions.

Foreign currencies:

In the accompanying consolidated financial statements, foreign currencies have been translated on the following bases:

Current assets and liabilities — exchange rates in effect at the year end;

Non-current assets and liabilities — historical exchange rates;

Income and expenses — average exchange rates during the year, except for depreciation and amortization which have been translated on the same basis as the related assets.

Deferred costs:

a) Development costs of proposed projects:

These costs represent investigation costs, legal fees and other expenses in connection with the development of specific projects currently under consideration. These costs will be added to the cost of project fixed assets, deferred as opening and establishment costs or written off, as appropriate.

b) Opening and establishment costs:

The operating results of new hotels (or major additions) and catering facilities are included under the deferred category of opening and establishment costs until the facility is fully operative or until receipt of a completion certificate from the project architects. In no event is this period to exceed ninety days from the first day of commencement of business. The opening and establishment costs are amortized over a ten-year period commencing on the date the new facility is considered fully operative, or at the end of the ninety-day period, whichever is the earlier.

c) Financing costs:

Financing costs, which relate to long-term debt, are amortized in equal annual amounts over the terms of the respective debt issues.

Land held for future development:

Land held for future development includes the original purchase cost ascribed to the land together with interest carrying charges and development expenditures.

Fixed assets and depreciation:

In respect of new hotels and major additions to existing facilities, the company follows the policy of capitalizing interest for the construction period and for the opening and establishment period, during which operating results are deferred. In no event is this period to exceed ninety days from the first day of commencement of business. The company does not commence depreciation of new facilities until the opening and establishment period has expired.

Depreciation and amortization are determined under the straight-line method at the following annual rates:

Buildings	1-2/3%
Paving	7%
Equipment and sundry	7-1/2% to 10%
Leasehold interest and improvements	Term of lease (including in certain instances term of renewal)

Tableware, linen and uniforms:

A basic stock of tableware, linen and uniforms is included in fixed assets in respect of each facility in operation. Replacements are expensed when placed in service. Tableware, linen and uniforms purchased as reserve stock are valued at cost and included in prepaid expenses.

Income taxes:

The companies adopted the tax allocation basis of accounting for income taxes in 1970, but did not retroactively adjust their accounts for 1969 and prior years. Under the tax allocation basis, income taxes are provided in the year transactions affect net income regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowances and deferred costs for income tax purposes in excess of depreciation and amortization charged in the financial statements.

2. FIXED ASSETS

Fixed assets and accumulated depreciation and amortization at December 31 are as follows:

	1975			1974
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
Land	\$ 2,138,284	\$ —	\$ 2,138,284	\$ 1,566,049
Paving	506,596	191,942	314,654	350,299
Buildings	23,097,473	2,146,178	20,951,295	17,614,539
Equipment and sundry	10,359,342	3,800,644	6,558,698	7,092,005
Leasehold interest and improvements	5,469,438	609,918	4,859,520	7,591,174
	<u>\$41,571,133</u>	<u>\$6,748,682</u>	<u>34,822,451</u>	<u>34,214,066</u>
Tableware, linen and uniforms, at cost			<u>1,078,849</u> <u>\$35,901,300</u>	<u>1,078,849</u> <u>\$35,292,915</u>

Leasehold improvements acquired in prior years in respect of the Old Mill Restaurant in the amount of \$3,007,606 were transferred to the building account on acquisition of the property in 1975.

3. ASSETS PLEDGED

The company's bank indebtedness, including the bank term loans referred to in Note 4, is collaterally secured by general assignment of book debts and a second charge on the Toronto Hotel property.

4. LONG-TERM DEBT

Long-term debt consists of:

	1975	1974
First mortgage, 9.5%, due 1982, secured by the Toronto Hotel property	\$11,606,000	\$11,894,000
First mortgage, 2% above the bank prime rate, due 1977, secured by the Old Mill Restaurant property	2,200,000	—
First mortgage debenture stock, 10.5%, due in instalments of \$119,880 in each of the years 1980 to 1983 with a final instalment of \$611,388 due on December 31, 1984, secured by a fixed and floating charge on the undertaking and all property and assets of Skyline Hotels (London) Limited	1,090,908	—
Promissory note, interest-free due in instal- ments of \$72,500 in each of February 1976 and 1977	145,000	—

Bank term loans:		
Canadian dollar loans at interest rates approximating 2% above the bank prime rate	4,500,000	4,500,000
U.S. dollars loans at interest rates of 2% per annum above the six-month, London Inter-Bank Euro dollar offer rate	7,153,417	6,913,655
U.S. dollar loan at interest rates of 1.5% per annum above the London Inter-Bank Euro dollar offer rate, due January 1977.	254,100	—
Chattel mortgage, 12.5%, due 1976	84,663	175,400
Instalment contracts secured by retention of title to equipment	160,541	236,382
Loans from the president and majority shareholder of the company at various rates from 10% to 12.25%	1,544,230	498,580
Sundry (secured)	21,387	21,651
	28,760,246	24,239,668
Less amount due within one year	751,010	1,176,229
	<u>\$28,009,236</u>	<u>\$23,063,439</u>

Principal amounts on long-term debt fall due as follows:

1977	\$15,880,390
1978	416,790
1979	428,817
1980	590,211
1981	605,880
1982 and thereafter.	10,087,148
	<u>\$28,009,236</u>

5. INCOME TAXES

As at December 31, 1975, the cumulative amount of unrecorded deferred tax credits relative to 1969 and prior years aggregated \$857,520 (see Note 1).

6. PURCHASE OF MINORITY INTEREST IN SKYLINE HOTELS (LONDON) LIMITED

Effective April 30, 1975, the company acquired the share and loan investments and long-term leasehold interest held by the minority shareholder of Skyline Hotels (London) Limited for an aggregate outlay of \$1,112,629. Based on rates of exchange current at the date of acquisition, the leasehold interest will result in reduced rental costs of approximately \$140,000 per annum to 1985. Thereafter, until expiry of the lease in 2069, further rental cost reductions, not presently determinable but expected to be not less than this amount, will be realized.

The purchase price exceeded the carrying value of the minority interest by \$243,724 and this excess has been allocated to fixed assets as a leasehold interest. The loss for the four months ended April 30, 1975, attributable to the minority interest, of \$16,737 has been reflected in the consolidated statement of loss.

7. SKYLINE HOTELS (CARIBBEAN) LIMITED

During the year the company finalized the termination of the management contract held by Skyline Hotels (Caribbean) Limited for the Skyline Hotel — Jamaica. As a result, at the end of November 1975, Skyline Hotels (Caribbean) Limited ceased active operations and applied for surrender of its charter.

The earnings of the subsidiary company for 1975 amounting to \$171,406 are not subject to income tax under Jamaican incentive legislation.

8. STATUTORY INFORMATION

a) The aggregate direct remuneration paid by the company to the directors and senior officers of the company for 1975 was \$240,666.

- b) In 1974, the company authorized an employee stock purchase plan to enable senior employees to utilize corporate funds for the purchase of treasury shares of the company. Loans under the plan at December 31, 1975 of \$166,659 are included in other assets in the accompanying consolidated balance sheet. These loans are being repaid without interest over a seven-year period from November, 1975.
- c) As at December 31, 1975 debts owing to the company by directors, officers and shareholders exclusive of amounts loaned to the trustee in respect of shares being purchased by the participants under the employee stock purchase plan, aggregated \$55,746.

9. LEASE COMMITMENTS

The company and its subsidiaries have contractual obligations in respect of long-term leases of hotel real estate and head office facilities having varying expiry dates from 1976 to 2027, some of which contain options to renew for further periods. The rentals incurred in respect of these obligations for the year ended December 31, 1975 aggregated \$1,987,580 (1974 — \$2,231,282). The minimum rentals (exclusive of escalation and percentage of sales adjustments) to be incurred in each of the years 1976 to 1982 aggregate approximately \$1,810,000.

10. CONTINGENT LIABILITIES

- a) The company is the defendant in various actions, which it is contesting by way of counter claims, in respect of claims for fees of \$91,600 plus interest relating to development and other claims, which, in the opinion of management, are not material in relation to the company's financial position.
- b) During 1975, the company agreed to terms by which the management contract in respect of El Panama Hotel — Panama City was terminated. The amount of Panamanian taxes payable, if any, for services rendered in 1974 under this contract and under a related technical services contract has not been resolved. However, in the opinion of management of the company such taxes to be paid, if any, in this connection are of nominal amount.

11. BRITISH GOVERNMENT GRANT

A subsidiary, Skyline Hotels (London) Limited, has received the benefit of a British Government grant (\$899,640) which has been applied in the accounts in reduction of the related fixed assets and hotel establishment costs. The conditions of the grant require that defined hotel facilities be maintained for the period to December 31, 1980, failing which a proportion of the grant may be reclaimed.

12. ANTI-INFLATION LEGISLATION

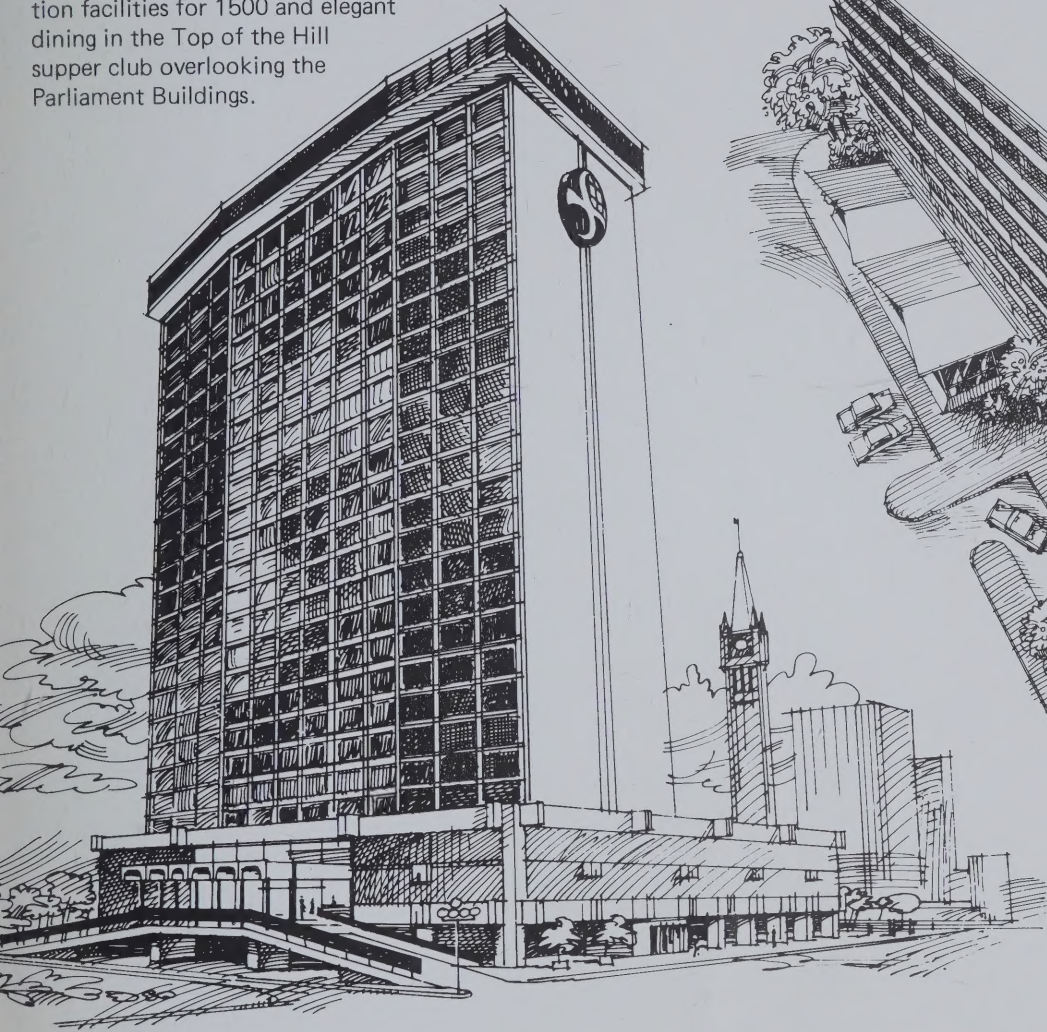
The company is subject to the anti-inflation legislation enacted by the Government of Canada effective October 14, 1975, to provide for the restraint of profit margins, prices, employee compensation and dividends. Based on initial filings, this legislation appears to have no effect on the 1975 financial statements of the company. Under the present legislation, dividends subsequent to October 13, 1975 are restricted.

13. SUBSEQUENT EVENT

Subsequent to the year end, the company agreed in principle to sell its interest in Skyline Hotels International Limited and Skyline Hotels (London) Limited, through which it operates the Park Tower Hotel and Skyline Heathrow Hotel, both in London, England. The transaction, which is subject to final agreement and receipt of appropriate approvals, involves the receipt by Skyline of \$6,000,000 Canadian in cash representing the purchase price for the shares and the repayment to Skyline of outstanding indebtedness from the U.K. subsidiaries of about \$3,750,000 Canadian. If completed, the net gain on disposition is estimated to exceed \$1,300,000.

SKYLINE OTTAWA

450 rooms in the heart of downtown Ottawa. Enjoy: indoor parking, health club, indoor swimming pool, live entertainment, meeting and convention facilities for 1500 and elegant dining in the Top of the Hill supper club overlooking the Parliament Buildings.



SKYLINE MONTREAL

250 rooms, close to Dorval Airport, convention facilities for up to 400. Live entertainment, indoor pool, and Le Trianon, one of Montreal's distinguished dining rooms. Make Skyline Montreal a good place in which to relax and do business.



SKYLINE BROCKVILLE

A comfortable 80 room hotel in the Skyline tradition. Great service in the heart of the Thousand Islands resort area at the cross-roads between Ottawa, Toronto, and Montreal.

